

Message Text

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TAGS: EFIN, IS

SUBJ: REGULATION OF FOREIGN BROKERS AND UNDERWRITERS

REF: STATE 79749

1. ISRAELI SECURITIES INDUSTRY AND TEL AVIV STOCK EXCHANGE ARE MODEST OPERATIONS AND CANNOT BE COMPARED WITH THEIR AMERICAN COUNTERPARTS. STOCK EXCHANGE HAS ONLY 28 MEMBERS (ALL ISRAELI), TWO-THIRDS OF THEM COMMERCIAL BANKS, AND REMAINDER FINANCIAL INSTITUTIONS AND BROKERS. LESS THAN ONE HUNDRED COMPANIES HAVE SHARES TRADED ON STOCK EXCHANGE. IN ADDITION, HOWEVER, BONDS AND OTHER FINANCIAL INSTRUMENTS (INCLUDING GOVERNMENT SECURITIES) ARE TRADED. BANKS DOMINATE SECURITIES TRADING.

2. DIRECTOR OF STOCK EXCHANGE PROVIDED COPY OF RULES AND ADVISED THAT THERE IS NO "PRECEDENT" FOR FOREIGN MEMBER, AND HE DID NOT THINK THERE WOULD BE ANY. ADMISSION IS BY DECISION OF MEMBERSHIP COMMITTEE, WHICH HAS CONSIDERABLE LATITUDE FOR DISCRETION, AFTER SCHEDULED HEARING. MEMBERS DO NOT BUY SEAT ON THE EXCHANGE AS IN UNITED STATES, BUT PAY NOMINAL FEE OF IL 1,000 (\$238). ONE REQUIREMENT FOR MEMBERSHIP IS THAT TRADING IN SECURITIES FOR ACCOUNT OF THIRD PARTIES BE MAIN LINE OF BUSINESS; BANKS ARE EXEMPT FROM THIS REQUIREMENT. ANOTHER IS SPONSORSHIP BY TWO PRESENT MEMBERS OF THREE YEARS' STANDING.

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APPLICANTS FOR MEMBERSHIP MUST MEET CERTAIN REQUIREMENTS AS TO

CAPITAL; IN GENERAL, CORPORATIONS WOULD BE REQUIRED TO HAVE REGISTERED CAPITAL OF IL 1 MILLION (\$238,000) AND PAID-UP CAPITAL OF AT LEAST HALF OF THAT. WHILE RULES PROVIDE THAT INDIVIDUALS, PARTNERSHIPS, AND COOPERATIVE SOCIETIES ARE ALSO ELIGIBLE FOR MEMBERSHIP, DIRECTOR SAID STOCK EXCHANGE STRONGLY RECOMMENDS INCORPORATION TO APPLICANTS, I.E., INCORPORATION IN ISRAEL AND THUS SUBJECT TO ISRAEL CORPORATIONS LAW. REASON FOR THIS, HE SAID, IS THAT INSTRUMENTS OF SUPERVISION ARE RELATIVELY POORLY DEVELOPED, AND NECESSITY TO ABIDE BY CORPORATIONS LAW OFFERS SOME SAFEGUARDS. DIRECTOR EMPHASIZED THAT ANY CHANGE IN OWNERSHIP OF STOCK EXCHANGE MEMBER, CORPORATE BOARD OF DIRECTORS, OR EXECUTIVE MANAGEMENT, REQUIRES PRIOR CONSENT OF STOCK EXCHANGE.

3. A FEW STOCKS QUOTED ON TEL AVIV EXCHANGE ARE ALSO QUOTED ON AMERICAN STOCK EXCHANGE, E.G., BANK LEUMI LE-ISRAEL B.M. SOME ISRAELI COMPANIES ARE QUOTED ON AMERICAN STOCK EXCHANGE BUT NOT ON TEL AVIV EXCHANGE, E.G., AMERICAN-ISRAELI PAPER MILLS LTD.

4. THERE IS ONE AMERICAN BROKERAGE FIRM WHICH HAS OFFICE IN ISRAEL (OSCAR GRUSS AND SON). IT IS RUN AS WHOLLY-OWNED SUBSIDIARY OF AMERICAN PARENT FIRM; IT IS NOT INCORPORATED IN ISRAEL. THIS GIVES FIRM CERTAIN ADVANTAGES: IT IS SUBJECT ONLY TO AMERICAN LAW IN ITS OPERATIONS, AND NOT TO ISRAEL CORPORATIONS LAW, WHICH WE UNDERSTAND IS MODELED ON BRITISH LAW. IN RETURN THERE ARE CERTAIN DISADVANTAGES, SUCH AS NECESSITY TO PAY CUSTOMS DUTY ON IMPORTED OFFICE EQUIPMENT--ISRAELI COMPANY CAN GET EXEMPTION. AMERICAN FIRM HAD TO GET SPECIAL PERMISSION FROM MINISTRY OF FINANCE TO SET UP OFFICE HERE. WE UNDERSTAND THIS WAS NOT GRANTED AUTOMATICALLY, BUT TOOK SOME TIME AND REQUIRED SPECIAL DECISION. IT IS LIKELY THAT FAVORABLE DECISION WAS INFLUENCED BY FACT THAT OWNER IS ZIONIST WHO IS BIG FINANCIAL CONTRIBUTOR TO ISRAEL; ANOTHER FACTOR WAS PROBABLY THAT FIRM LIMITS ITSELF TO SECURITIES TRANSACTIONS BETWEEN ISRAEL AND UNITED STATES, OVERWHELMINGLY CONSISTING OF PURCHASES BY ISRAELI OF AMERICAN STOCKS. (REVERSE BUSINESS IS NEGLIGIBLE.)

5. FACT THAT ISRAEL POUND IS NOT FREELY CONVERTIBLE CURRENCY, PLUS SMALL SIZE OF MARKET, ENSURE THAT ISRAEL IS AND WILL REMAIN A BACKWATER IN SECURITIES BUSINESS. SOURCES OF FOREIGN CURRENCY FOR INVESTMENT IN US SECURITIES ARE THREE: (A) FREE FOREIGN UNCLASSIFIED

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CURRENCY OWNED BY IMMIGRANTS, WHO ARE ALLOWED TO RETAIN FOREIGN BANK ACCOUNTS FOR UP TO TEN YEARS AFTER IMMIGRATION; (B) DEPOSITS OF FOREIGN RESIDENTS IN ISRAELI BANKS (SO-CALLED PATACH); AND (C) DEPOSITS OF RESIDENTS WHO RECEIVE GIFTS AND OTHER UNILATERAL TRANSFERS IN FOREIGN CURRENCY, PARTICULARLY RESTITUTION PAYMENTS FROM GERMANY (SO-CALLED NATUAD). AMERICAN BROKERAGE HOUSE REPORTS THAT BY FAR LARGEST SHARE OF ITS BUSINESS COMES FROM LATTER TWO SOURCES, BETWEEN WHICH IT IS UNABLE TO DISTINGUISH. IN

ADDITION TO AMERICAN REPRESENTATIVE OFFICE, MAJOR LOCAL BANKS LIKE BANK LEUMI AND BANK HAPOLIM ALSO ACT FOR LOCAL RESIDENTS DESIRING TO BUY AMERICAN SECURITIES. BANKS TRANSACT BUSINESS THROUGH THEIR NEW YORK BRANCHES, WHO HAVE ESTABLISHED CONNECTIONS WITH BROKERAGE FIRMS.

6. OUR INVESTIGATION SUGGESTS THAT THERE WOULD BE SUBSTANTIAL INFORMAL OBSTACLES TO BE OVERCOME BEFORE FOREIGN FIRM COULD PARTICIPATE IN LIMITED DOMESTIC SECURITIES BUSINESS IN ISRAEL. LOCAL REGULATIONS OR PRACTICES DO NOT FORBID FOREIGN FIRMS FROM ENTERING THIS FIELD; BUT FOREIGN INVOLVEMENT IS SCARCELY EVEN CONTEMPLATED. IT WOULD PROBABLY BE NECESSARY FOR FOREIGN FIRM TO INCORPORATE ISRAELI SUBSIDIARY. PROBLEM OF OBTAINING TWO SPONSORS FROM AMONG PRESENT 28 MEMBERS OF STOCK EXCHANGE COULD CONCEIVABLY PROVE FORMIDABLE OBSTACLE. ON OTHER HAND AMOUNT OF BUSINESS TO BE DONE LOCALLY IS SMALL BY AMERICAN STANDARDS.
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